RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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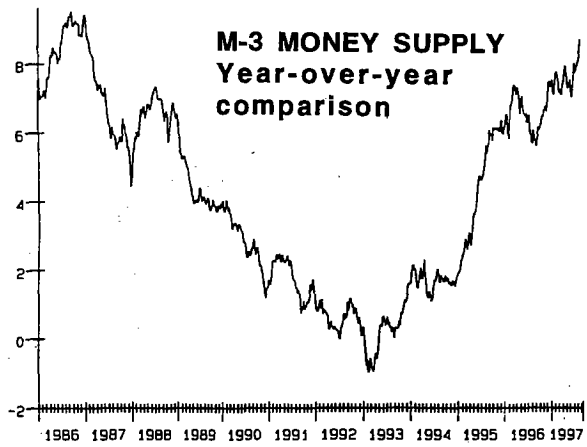
Sept. 24, 1997 **LETTER 1235**

BIG PICTURE: It's really an incredible picture, one that I've never seen before. Here's what's happening. **M-3,** the broad measure of the US money supply, is rising at a year-over-year rate of **8.7%** (chart courtesy of *ISI*). Ordinarily, this rapid expansion in the money supply would be inflationary, easily producing maybe a 5% or more rate of inflation. But, at least so far, that isn't happening.



Why? Because much of the rest of the world is **deflating** -- and the deflationary global effect is rubbing off on the US. Last week, Japan's Nikkei stock average plunged below 18,000 (at the '89 high it was just under 40,000). The Southeast Asian stock markets have dropped 30% to 50% while their currencies have plunged, due to competitive devaluations (every nation wants the export edge). The Sept. 7 *WSJ* headlined an article stating that China is moving into production of top-quality appliances (and you can be sure they'll be exporting those low-priced beauties). South Korea soon will be producing their own brand of cars which nobody needs. It's world over-production and over-supply. Pricing power (the ability to raise prices) in the US and everywhere else is dead. **World over-supply is what's happening, and it's deflationary.**

In the meantime, the US is having a ball. We're expanding our money supply and enjoying growth while at the same time not generating inflation. The markets? They love it. They've found paradise on earth. Monetary growth in the US, economic growth in the US, devaluations and deflation in Asia, high unemployment in Europe -- it's freaky, it's a rarity -- but it's happening.

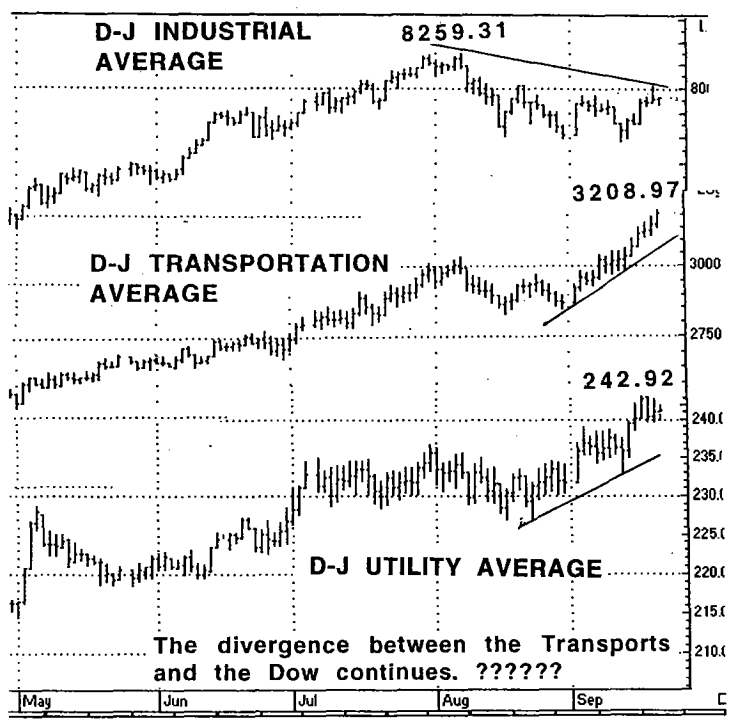
THE MARKET & DOW THEORY: On September 8 the D-J Transportation Average surged to a new record high accompanied by good market breadth. The **flaw** in the picture was one that is of interest to every Dow Theorist. The flaw was that the D-J Industrial Average **failed to confirm** the new record high in the Transports. In fact, on the same day (Sept. 8) that the Transports closed at a record high, the Dow closed at 7835.18, 424 points **below** its comparable bull market high of 8259.31.

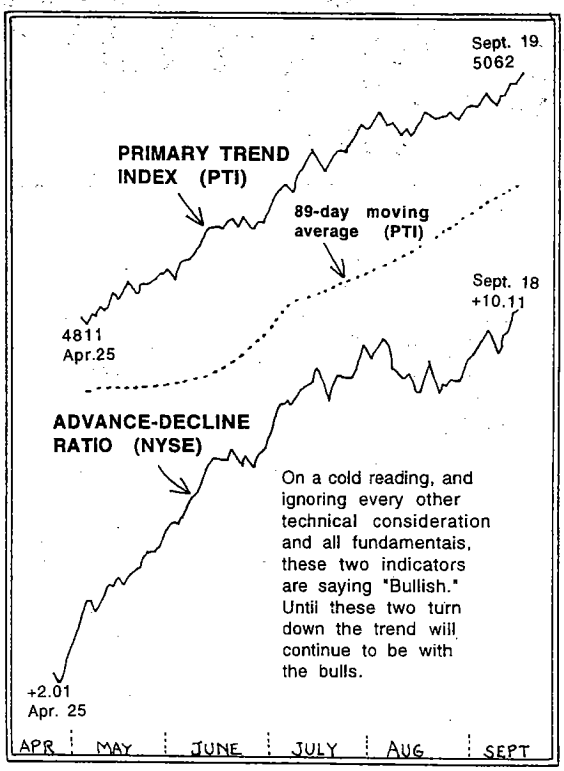
Sept. 12 DJIA 7742.97; PTI 5042; A-D Ratio +9.43
Sept. 19 DJIA 7917.27; PTI 5062; A-D Ratio +10.08
Dow Yield: 1.67%; Dow Price/Earnings: 21.1
Dow 144-day MA: 7486; Dow 34-day MA: 7866
Dow Times Book Value: 5.59; PTI 89-day MA: 4970
Percentage of Undervalued Blue-chips: 3%
Gold 144-day MA: 342

How meaningful is this non-confirmation? Even though the advance-decline ratio is at a high, even though my Primary Trend Index is at a record high, I believe the non-confirmation of September 8 was **meaningful.** It's clear at this point that the "big" Dow stocks are fully priced if not over-priced. It's equally clear that stock-buyers have been **switching to the secondary stocks** or at least into stocks that are not on the favorite-50 list. Thus the Dow non-confirmation could merely mean that the big-cap stocks are fated to go nowhere for a while -- or then again, the non-confirmation could mean trouble.

From the bullish standpoint, it would be very unusual for the market to top out with the A-D ratio at new highs. It would be very unusual for the market to top out with the PTI at record highs. It would also be highly unusual for the market to top out with the Utility Average at a nine-month high.

Aside from the non-confirmation, there's another unusual phenomenon. It's the toppy "head-and-shoulders" pattern in the Dow, a pattern that has been forming ever since last May. What's so strange is that I haven't read any references to this bearish formation. **Nobody has even mentioned it.** Why? Obviously, chartists and market analysts must have seen and recognized this large top-type pattern. So what





was going on? My guess is that in the current "Alice in Wonderland" environment bullishness is so popular, so ingrained, so accepted, that anything as negative as a potential top formation in the Dow is simply ignored.

On Sept. 11 the Dow sold off sharply, down to an intra-day low of 7580.61. But later in the day the market rallied and the Dow finally closed well above 7600 at 7660.98. Thus, **the critical 7600 level held.** So up to this writing, the market has rejected the downside. It's as if the Dow is "heavy" but unwilling to slump.

To bring the whole picture to the present, the divergence between the Dow and the Transports continues. Transports have been surging to new record highs, while the Dow has been lagging. It's a strange and unusual picture, and at this point it's too early to know what it means.

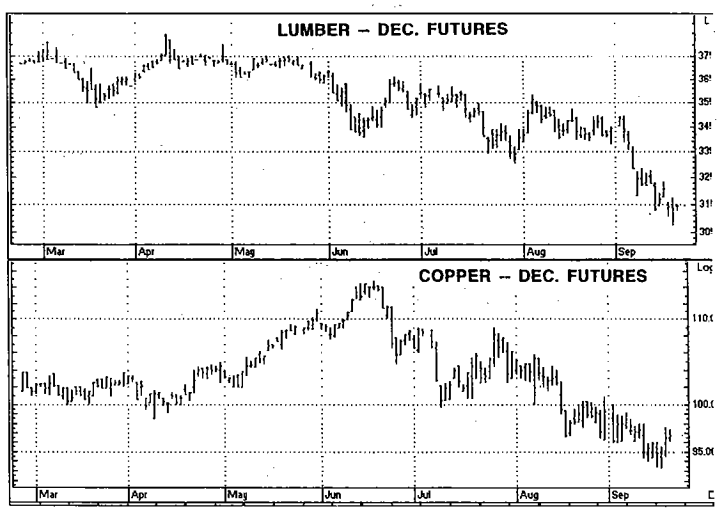
Items to Ponder: (1) The market has been subject to **heavy insider selling.** Insider selling on a trend basis often leads the stock market by six months to a year. Heavy insider selling in 1997 constitutes a negative for the stock market in 1998.

(2) Specialists' short sales have climbed above short sales by the public for the first time in three years. In the past, this has been a negative for the stock market.

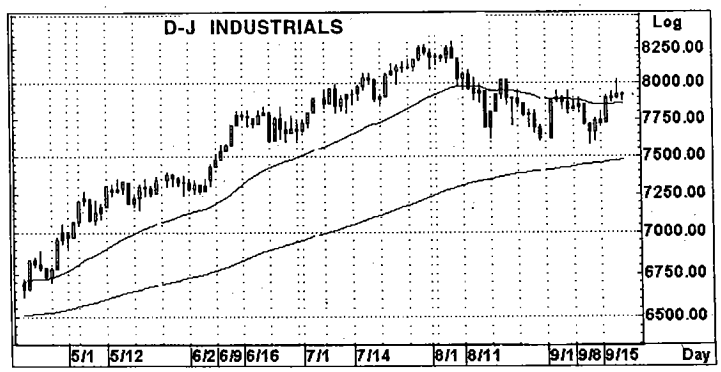
(3) The US economic expansion has lasted almost seven years, which is a long time. The primary bull market has been in force since 1974, which is a VERY long time. The latest leg of the bull market has lasted seven years, which is a VERY long time for any single bull leg. The last stock market correction worthy of the name took place before the majority of today's "investors" were even in the market. The last true primary bear market occurred a quarter of a century ago.

(4) Sentiment towards the market continues extremely bullish. Public money continues to pour into mutual funds. Analysts are openly forecasting another two, four or even more years of prosperity. My office is right next to Dean Witter in La Jolla. Yesterday a veteran Dean Witter broker told me, "Dick, I walk through my place and I don't know who anyone is anymore. There are so many new faces I think I must be in the wrong office." This reminds me of the old Wall Street adage concerning brokerage houses which tells us, "They hire at the top and fire at the bottom."

(5) My late friend, economist Eliott Janeway, always followed copper as a **lead indicator** of the economy. Here's the copper chart. Copper is down from a June high of 114.50 to last week's low of 94.80. Lumber has also hit the deck. Building boom in '98? Lumber prices don't reflect it.



(6) I've already alluded to the huge toppy appearing pattern in the Dow (see *WSJ* daily chart). But let's examine the Dow on a moving average basis. The accompanying chart shows the Dow with its 34-day moving average (MA) and the longer-term 144-day MA.



Here's how I interpret the picture. The Dow's 34-day MA is still well above its 144-day MA -- which means that the two MAs continue in the **bullish mode.** The Dow held below its 34-day MA ever since August 21, but on September 16 the Dow finally surged above its 34-day MA to render a bullish signal. The 34-day MA now stands at **7855**, and, to remain bullish, the Dow must hold above that level.

Russell conclusion: Utility Average bullish, Transports still strong, Dow lagging, PTI at new highs, insiders are selling -- it's the formula for a **high-level trading range.**

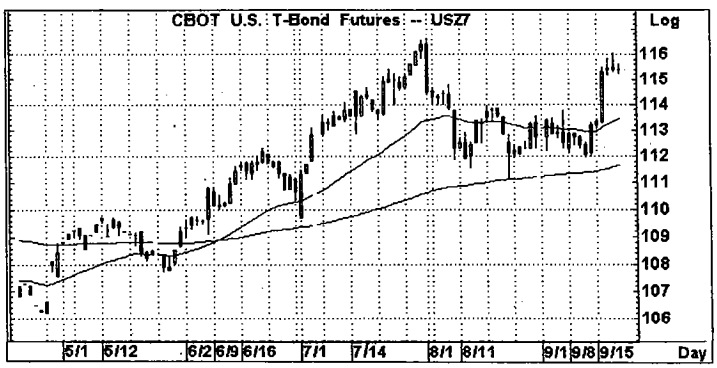
BONDS (which, by the way, I've been recommending) surged last week to within a fraction of their high for the year. What is the surprisingly powerful bond market telling us? The **obvious** answer is that there's very little inflation in

the economy, and bonds love a non-inflationary environment.

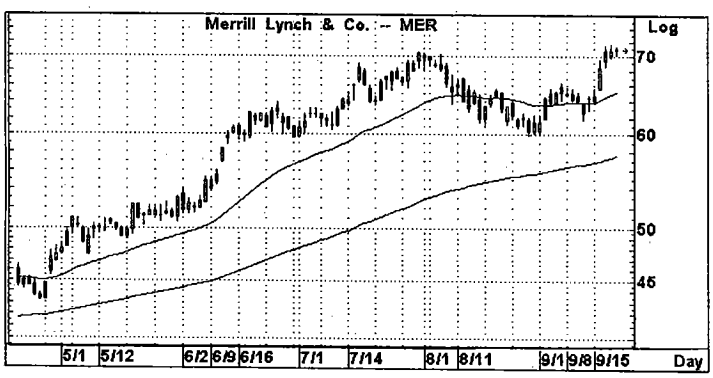
The **less obvious** possibility, is that business is heading for a slow-down in 1998 (note the copper and lumber charts above). The slow-down thesis also dovetails with the refusal by the Dow to confirm the succession of new highs in the Transportation Average. A slow-down or even a recession in '98 would be totally unexpected. **Note:** The strength in bonds is particularly surprising in view of the rapidly rising M-3 money supply.

Bond Technicals: The bond action last week was spectacular. The 34-day MA for bonds has been holding bullishly above the 144-day MA. But over the last month the bonds (having plunged in early August) had been fluctuating just below their 34-day MA.

On Sept. 12 the bonds crept higher, closing slightly above their 34-day MA. This triggered a buy signal. Then on Sept. 16 the bonds exploded almost 2 1/2 points higher, their largest advance of the year. The upside target for the Dec. bond futures is now the July 31 high of 116 13/32nds. Failing that high, I would say that the bonds are in a high-level trading range. It is well to remember, however, that based on the moving averages study the bonds remain in the bullish mode.



MER: Bellwether Merrill Lynch is bullishly at its all time high of 70. When the bulls are loose, Wall Street makes money. On Sept. 17 Goldman Sachs reported staggering pre-tax profits of just below $1 billion for the quarter (that's not for the year, that's just for the quarter). In the 1930s every ambitious Wall Streeter dreamed of being "a ten-thousand-a-year man." Today they dream of being a partner in Goldman Sachs (where the 150 partners will each almost surely make $5 million or more this year).



INVESTMENT POSITION: It's obvious that Warren Buffett gets most of his best advice from me. You see, it turns out that Buffett bought a couple of billion dollars worth of zero-coupon bonds. Furthermore, and I can't prove it, Buffett may be selling some of his stocks (see discussion in Notes & Quotes section).

Bonds have been acting very well of late, and I see nothing wrong with going out 20 years or even more in Treasuries. To me, a guaranteed 6.4% from a Treasury is more interesting that 1.6% in expensive blue-chip stocks, all within an economic expansion that is seven years old. The US has enjoyed a long period of prosperity, and now the world is struggling with an over-supply of products. This could bring on disinflation or actual deflation -- at least that's what the bonds seem to be saying.

High-grade bonds are the investment of choice during a period of deflation, and it may be that bonds are finally coming into their own. Anyway, I like them here, and personally I'm holding both T-bills and longer-term bonds.

Standard & Poor's notes that the ratio of the six-month T-bill rate to the yield on the S&P 500's is 3.2 to 1, the widest in at least 20 years. *S&P's* adds, "That doesn't mean too much so long as stocks are appreciating, but once they level off they will face keen competition from the money market."

Again I point to the unusual picture of a strong bond market in the face of good business and a rapidly expanding US money supply. Bond investors are generally conceded to be the most conservative and sophisticated of all investors. And I have to wonder if the market doesn't see a slowdown in the economy in 1998.

Even Buffett Is Putting Chips On Bond Table

CREDIT MARKETS

By GREGORY ZUCKERMAN
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK – Bond bulls, rejoice: You've got good company.

Berkshire Hathaway, run by renowned investor Warren Buffett, has been a big buyer of bonds in the past month, according to several traders familiar with the transactions.

Warren Buffett

Mr. Buffett and other Berkshire Hathaway executives declined to comment. But the traders say the buying took place in a five-week period that ended just over a week ago. In all,

Bonds and stocks **move together most of the time.** But there is a time when they separate and go their separate ways. That time is during a **coming recession.** When a recession is on the way bonds move up (safety of both principal and return) while stocks head down (danger for principal and dividends). We haven't seen the de-coupling of stocks and bonds for a long time. When you see it, take it as a danger signal for both stocks and the economy.

NOTES & QUOTES: Veteran subscribers remember the lowly and disliked D-J Rail Average (later called the Transportation Average). When the bull market started in 1974 the lowly Average was 125. Now at 3164, the Transports are up **2,436%.** During the same period, the much more glamorous D-J Industrial Average has increased **1,287%.** I bet during the 1974-80 period I received 200 letters telling me that the Transportation Average was an antique and would never go anywhere.

* *

Just 10 **huge cap stocks** take up 19.2% of the S&P 500. These ten are GE (market value $200 billion), Microsoft ($161 billion), Exxon ($152 billion), Intel ($151 billion), Coke ($146 billion), Merck ($110 billion), Royal Dutch ($110 billion), Philip Morris ($109 billion), IBM ($102 billion), and Proctor & Gamble ($92 billion). Know which way these 10 are going, and you know which way the market is going.

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What areas of business are occupied by women? Here are the number of **businesses run by women** nationwide: (1) cleaning services, commercial and residential -- 8,886 woman owned businesses; (2) beauty salons -- 7,841; (3) retail stores -- 7,686; (4) consultants/business -- 6,950; (5) crafts -- 5,352; (6) restaurants -- 5,350; (7) gift shops -- 4,584; (8) interior decorators -- 3,558; (9) real estate -- 3,466; and (10) florist retail -- 3,218.

* *

Who are the biggest (how much they spend) **foreign lobbyists** to the US? (1) Surprisingly, number 1 is Canada, which spends $5.1 million a year pressuring the US on trade, lumber, salmon fishing, magazines. (2) Mexico, spending $5.0 million lobbying for trade, peso bailouts. (3) Japan spends $4.9 million, but this doesn't include domestic subsidies of Japanese firms such as Sony and Honda, which spend an additional $8 million. (4) Britain spends $4.3 million. (5) Taiwan spends $4.2 million, mostly on Taiwan/US relations. (6) Israel spends $3.2 million lobbying for US loans, economic assistance, and weapons.

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In a poll *Money* magazine found that half the people **worry** increasingly about money. For the first time since the annual poll was inaugurated 12 years ago, pollsters found that anxiety is on the rise. The poll found that Americans now think more about money than about sex. Women are more worried than men, and 54% of women stated that an unexpected bill of just $1,000 would be a big problem for their household. The biggest complaint among those surveyed was that their wage increases have not been keeping up with inflation. Other gripes included rising stress, unhappiness with corporate downsizing and a growing feeling that tax dollars are not being put to good use. David Whitman, author of "The Optimism Gap," talks about the "I'm OK, you're not OK" syndrome. He notes, "Americans see that the grass is browner in some other people's back yards, and they worry that the green in their own back yards will turn brown, too." **Russell comment:** In the face of one of the longest periods of prosperity in US history, it's only natural for people to become concerned with, "When will the good times end?" My guess is that the older generation (me included) who have seen bad times have probably placed themselves in the best position to withstand a recession. Conversely, the baby boomers continue to spend while moving further into debt. In a downturn, I would think that those under 30 would be hurt the most.

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Central Banks: What would the central banks do in the event of a real downturn? On Sept. 9 it was reported that both the IMF and the Fed are concerned about market valuations. Said IMF Deputy Director Stanley Fischer (referring to valuations), "It is a lingering concern of the Fed as well." Fischer added that in the face of a stock market meltdown central banks from around the world would respond "quickly and appropriately" as the Fed did after the October 1987 US market plunge. Fischer added hopefully, that in the event of a moderate market retreat US consumers would not be impacted too much. **Russell comment:** I disagree with the last statement. In the face of a market downturn, I think consumers would pull in their spending dramatically. Since the bulk of Americans' so-called savings are now in the stock market, I believe Americans would view a bear market as a potential wipe-out of their savings.

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The headline of the Sept. 9 London *Financial Times* reads, **"Dollar's Domination Could Be Ended by the Euro."** The article starts, "European economic and monetary union, scheduled to be introduced on Jan. 1, 1999, will end the role of the dollar as the world's dominant currency, according to a growing number of international economists." **Russell comment:** Well, that's the European wish. I do think we will see a system where the dollar, the euro and probably the yen will be the three main currencies. I believe that most central banks would rather hold two or even three currencies as reserves, rather than depend totally on the dollar. However, if the euro becomes a reality, there will surely be increased competition for the dollar -- and there will also be much larger swings in the currency markets.

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Scandal & Rumor Dept: Paula Jones' lawyers have quit. It seems that Clinton's lawyers wanted to settle her sex harassment suit with the Prez for $700,000, and Jones' lawyers were more than willing to take it (the Jones lawyers were to get one/third of the $700,000). But Paula wanted a Clinton apology along with the settlement, and Clinton said, "No." So as matters stand, the case goes to court (Jones says she doesn't want money, she wants an apology). **Russell comment:** Let's face it, Jones is damn angry, and Clinton has a big problem -- a woman he can't buy off. On Sept. 5, it was announced that the IRS is auditing Jones (she and her husband have an income of $37,000).

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Is **Michael Jackson** broke? *Penthouse* says that Michael "is teetering on the edge of financial ruin." It states that "his commercial appeal is fading fast," and that pedophile charges have killed his career as a product endorser. On top of that Michael is a BIG spender. Enter Saudi Prince Alwaleed bin Tabel, who signed on last year as Michael's manager. The Prince has been reorganizing Michael's affairs, and says that all is OK. In the meantime, according to Santa Barbara real estate sources, Michael has been trying to unload his home, Neverland, and the price is a mere $26 million. So far, no takers.

* *

Millions of words about the death of Diana but little about **Dodi**. Why? Maybe this explains it (from the Sept. 15 *US News & World Report*): "However Diana may have felt about Dodi Fayed, it is unmistakable how the British upper class felt about him. London society detested the Fayeds for being foreign-born, non-white, social-climbing, and -- not least -- good at commerce, a calling the British aristocracy scorns while at the same time retaining its enthusiasm for spending the money produced by the business skills of others. Dodi's father, Mohammed, a longtime resident of Britain who owns the London department store, Harrods, has for years been denied the right to carry a British passport . . . in the main the denial is emblematic of establishmentarian English resistance to anyone of foreign birth or colored skin."

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Self-styled TV king, **Larry King**, entered his seventh marriage right after an angioplasty operation (he had bypass surgery in '87 and angioplasty previously, just last June). **Russell advice:** Larry, good luck on your marriage -- and try chelation. Whatever is stopping up your arteries is going to continue stopping them up -- by the way, angioplasty is just a stop-gap measure. Note: Last week *Time* mag. published a major article on heart disease and discussed the major treatments. Total amount America spends on the various treatments -- $25 billion. There was no mention of chelation.

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What's the hottest item on **radio**? It's Dr. Laura Schlesinger, the marriage and family counselor who advocates tough-love. Last week Jacor Communications bought Laura's company for an eye-popping $71.5 million. The price was thought to exclude Laura's salary which is in the middle seven figures. Schlesinger's is the fastest growing radio show in the nation, now in more than 400 markets, 10 times the number that Howard Stern is in (Rush Limbaugh leads with 625 markets). **Russell comment:** I like Laura. She talks common sense, a rare commodity.

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Uh Oh, could this be a danger signal for the entire music business? The artist formerly known as The Artist Formerly Known as Prince -- but currently known as simply The Artist, is now recording his own music and distributing it himself via phone and the Internet. The Artist says business is very good. The Artist is also going on the road without benefit of agents, managers or merchandisers. The Artist is giving advance notice of only one week for his concerts, thereby thwarting scalpers and bootleg merchandisers. Says the Artist: "Being unsigned to a major label is the most rewarding, least constricting way of life I've lead in 20 years. Everything I do now is on the spur of the moment, which allows me freedom to better follow my own divine design. I mean this with no arrogance."

* *

Buffett Exiting? Steve Leuthold of the Leuthold Group [(612)332-1567] mentions (or suspects) the unmentionable. Is Warren Buffett of Berkshire Hathaway selling some of his holdings? Is it possible? I guess so. When the "baby Berkshires" came out Buffett said that he felt that there were few values in the market and that he wouldn't be a buyer of his own stocks. But talk is talk and action is action. It is interesting that many of Buffett's biggest holdings, Gillette, Disney, Coke, McDonald's, Wells Fargo, and Salomon Bros., are down substantially.

Then on Sept. 5. the *WSJ* announced that Buffett had purchased $2 billion of zero-bonds -- face value $10 billion. The bonds held to maturity will give him about 7% return per year. What's this telling me? It's telling me that Buffett believes that over the foreseeable future the stock market will fail to provide total returns of as much as 7%. I agree.

* *

NationsBank (which has been one of my favorites) may be expanding too fast, at least judging from the way the market has treated its stock lately. A few weeks ago NB announced the purchase of Barnett Banks for $9.75 billion (previously it had bought Boatsmen's Bancshares). At any rate, NationsBank's stock took a dive, but much sadder, analysts believe that the takeover will result in 10 to 12 thousand employees being laid off along with the closing of 300 to 400 branch banks. Ah well, the cost of progress.

* *

Here's a new one. Norwegian cruise line execs are launching a 958-foot, 15-deck ship in which you buy 1,100 to 3,200 square foot apartments at prices from $1.2 to $ 5.38 million (there will be 250 apartments). Featured will be a 40-foot swimming pool, seven restaurants, paddle tennis courts, baby sitting services, Internet hookups in every room, but no pets. The huge floating apartment-boat will travel to main ports of the world including Kuala Lampur, Istanbul, Crete, Rangoon, Rio, St. Petersburg, and NYC. Sales will be handled through Christie's Great Estates.

* *

From the latest issue of economist Gary Shilling's *Insight* [(973)467-0070]: "Southeast Asian competition suggests that global deflation may be on the way. Deflation is fundamentally the result of excess supply. Competitive devaluations are attempts to unload excess supply problems on trading partners . . . We believe that global deflation may well be on the way . . . It may take years to become a worldwide phenomenon, but we might then look back and note that it started in Southeast Asia in mid-1997."

* *

"Anyone can give up smoking, but it takes a real man to face cancer." Yeah, right. A great HBO anti-cigarette program notes that cigs are as addictive as cocaine. They note that 400,000 people a year will die from cig-related diseases in the US. Cigarette companies spend $5 billion a year on advertising. And smoking is becoming an expensive way of dying. Here are the prices for a pack of butts the world-over: US -- $1.90 plus 90 cents tax; Australia -- $2.67 plus $2.92 tax; Canada -- $3.00 plus $1.97 tax; Denmark -- $4.75 plus $4.02 tax; Hong Kong -- $3.62 plus $1.76 tax; Ireland -- $4.94 plus $4.16 tax; Norway -- $7.05 plus $5.23 tax; Portugal -- $1.77 plus $1.43 tax; Singapore -- $3.72 plus $1.87 tax; South Africa -- $1.04 plus 47 cents tax; Spain -- $1.08 plus 81 cents tax; UK -- $5.27 plus $4.30 tax. **Russell comment:** If you're looking to get lung cancer on the cheap, South Africa, Portugal, Spain and the US are the places to live.

* *

I find the Internet handy (I never surf it), but for me there's nothing like the daily **newspapers.** Evidently, I'm not alone. Here's the circulation figures of the nation's five biggest newspapers: *USA Today* -- 2.2 million; *Wall Street Journal* --1.8 billion; *NY Times* -- 1.1 million; *LA Times* -- 1.0 million, *Washington Post* -- 821 thousand. The *WSJ*, with a circulation that was once over 2 million, has been losing (maybe being hit by *Investor's Business Daily*), and the *NY Times* (finally) is introducing limited color plus some modernization.

* *

13D Research, Inc. [(208)726-1565] in their latest report states, "The Nikkei plunged through a 50-year trendline. Is Japan heading for a recession and a deepening financial crisis?" Japan just raised their sales tax from 3% to 5%. *13D* continues, "Japan's fiscal tightening this year may prove as ill-timed as that of Hoover during the depression or Roosevelt in 1937. The next major crisis is unfolding in Japan with potentially devastating consequences . . . The Japanese economy looks dangerously weak. Japan's GDP shrank 2.9% in the second quarter from the first quarter, its biggest contraction in 23 years. Department store sales in July dropped 1.6% (its fourth straight month) and supermarket sales by 2% vs. the year ago period. Auto sales have declined for five consecutive months, falling 10% in August alone. Japanese bankruptcies rose for the seventh straight month in July." **Russell comment:** Japan's bad bank loans and deflationary environment could present problem for years. When bubble-economies burst, they usually take a long time before returning to normal.

* *

Whining: When I started out in this business all I had to do was follow the stock market. No more. Today I follow the stock market, gold, foreign markets, the commodities, bonds, futures, options, the Fed, interest rates and anything and everything that could affect the markets or the economy. This entails reading 11 newspapers a day plus more magazines that I can count. Basically, what I try to do is combine my views on the markets and the economy with as much information as I can pack into six pages -- every other week. It ain't easy, but luckily I love the work.

People tell me, "Russell, you've been writing this thing for 39 years. Why don't you retire?" And my answer is, "Retire to what? I like what I'm doing, and when you like what you're doing it's not really work." Actually, if I retired I'd probably read the same newspapers, think the same thoughts, and do pretty much what I do now.

* *

The end of angiograms? Imatron (Nasdaq, IMAT) announced that a study published in "Circulation," the journal of the American Heart Association, has demonstrated that Imatron's Ultrafast CT scanner has a sensitivity of 95% for the detection of coronary artery obstructions. Unlike angiograms, which are invasive and expensive, the Ultrafast CT scanner is neither. Russell question -- sounds great, but the stock has sat in the 2-3 range since last May. Is there something wrong, is the stock a bargain, or has it simply not been given enough publicity? Mmmm.

* *

Half a century after the holocaust, Poles are still blaming the Jews for their nation's many problems (most of the Nazi death camps were in Poland). Before WWII Poland's Jewish population was 3 million. Today only 3,000 Jews live (survive) in Poland. Poles have anti-semitism ingrained in their collective psyche. So today, despite the fact the Jews constitute only a tiny fraction of Poland's 40 million population, Poles still insist that 3,000 Jews are the cause of their nation's many ills. Thus anti-semitism has moved close to it's ultimate irony -- anti-semitism without any Jews.

* *

Faye and I attended the big annual fund-raising party sponsored by the La Jolla Museum of Contemporary Art. The grand prize was a trip for two (via Air France) to Monaco plus five days stay at Monaco's famous Hotel de Paris including five days in a luxurious spa plus a helicopter round-trip to Nice and back. Guess what? We

won the grand prize. And because people know that I'm not big on traveling -- my first reaction was that someone was playing a joke on me. It was no joke. So, will the Russells go to Monaco in the spring? It could happen.

* *

Money magazine (Oct. '97) doesn't like the majority of newsletters, as this heading tells us. Ah, but there are exceptions. I guess somebody must be following my Primary Trend Index, so thanks Mr. Hulbert.

Don't trust newsletters

IF YOU'RE SPENDING BETWEEN $125 AND $150 a year for an investment newsletter—the average cost of a one-year subscription—we have a suggestion for you. Save your money. A new study says there is absolutely no statistically significant relationship between the market forecasts in the letters and subsequent stock market returns. The study was produced by Roger Clarke, chairman of Analytic TSA Global Asset Management in Los Angeles, and Meir Statman, professor of finance at Santa Clara University in California. They analyzed 140 independent

Are any newsletters worth the money? One answer is that the study deals with publications in the aggregate rather than with individual letters. Mark Hulbert, publisher of *Hulbert Financial Digest*, which tracks newsletter performance, says that over the past 10 years, three market-timing newsletters have actually beaten the market: *Systems & Forecasts* ($225; 800-829-6229), *Investors Intelligence* ($184; 914-632-0422) and *Dow Theory Letters* ($250; 619-454-0481). Only three, but Hulbert adds: "The average mutual fund, economist or Wall Street analyst doesn't beat the market either." —D.M.

Those of us who live near the Mexican border are used to all kinds and varieties of smuggling stories. But this one floored me. Two guys from LA were convicted in LA court last week for the following offense: they tied snakes into pantyhose and then tucked the hose into their groin area. Inspectors first suspected narcotics, but then realized that trousers don't wiggle. The inspectors ordered the two to drop their trousers -- in the pantyhose, inspectors found three bull snakes, a king snake, a Nelson milk snake, six green rat snakes and a boa constrictor. The bad boys were fined $5,500 each and the snakes were confiscated.

* *

GOLD: I dunno, maybe this article from the Sept. 10 *WSJ* is pinpointing the bottom of the long bear market in gold. Let's face it, only we old-timers still believe that gold is real money and that dollars and marks and yen are printed pieces of paper that are manufactured via government printing presses.

The current attitude towards gold will only change when the purchasing power of paper money is destroyed by rapid inflation or a debt collapse -- or something else unknown at this time.

But let's get real. Right now the world's population totally accepts paper, and the paper of choice is -- the dollar. As long as this holds true, gold stocks will have their troubles and gold, the metal, will be held by us old-timers simply as insurance against the economic unknown.

But wait -- hope springs eternal. XAU, the Phila. Gold/Silver average, is now looking kind of interesting. XAU recorded a low close of 87.01 on July 7. From there XAU rallied to a 102.85 close on August 11. From there XAU plunged to a higher close at 91.91.

As this is written, XAU has reversed to the upside again, and is pressing against its 34-day MA at 97. That's not bad action. A very bullish move would now be a further

Gold Holds Its Luster With Older Investors Despite Forlorn Price

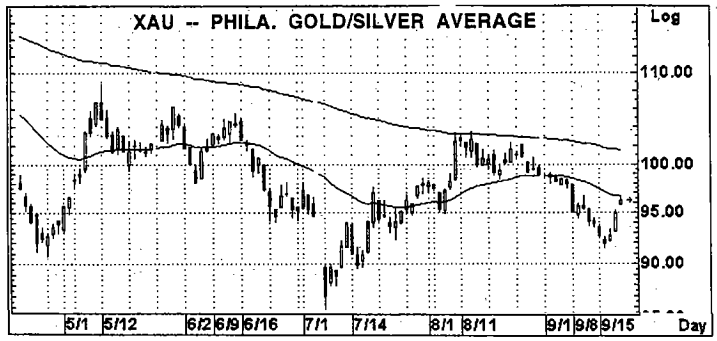
International Finance Policies Bode Ill for the Metal; Young Buyers Shy Away

Memories of the Depression

By Aaron Lucchetti
And Michael R. Sesit
Staff Reporters of The Wall Street Journal

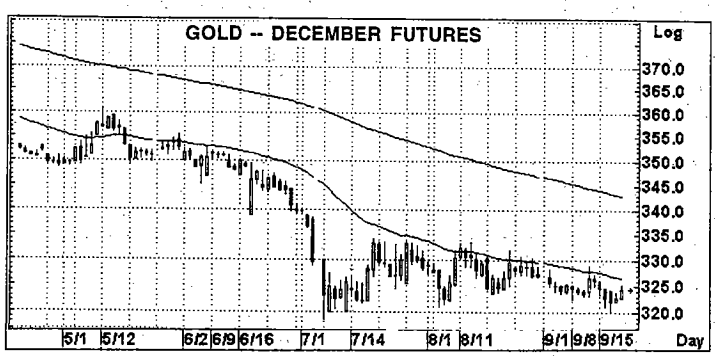
The early 1980s were the golden years for Charles Baverman. But these days, his investing children fail to see the luster in an investment their father devotedly swears by.

Mr. Baverman's -



advance to 103. At 103 XAU would have rallied above its 144-day MA (which stands at 101.50) and also above the last peak at August 11. Put it this way -- at 103 the hold gold picture would brighten considerably.

How about the metal? On July 7 the December gold futures recorded an extreme intra-day low of 318.5. The Dec. futures are just points away from that level now, and if broken, gold will probably dribble down to the 315 support level. But let's not throw in the sponge yet -- as this is written, the Dec. futures are just a point under their 34-day MA which stands at 327. December gold (the futures) above 327 would be a first bullish step for gold. Gold-philes, assume the prayer position.



LATE NOTES: Again, I come back to that non-confirmation -- and I'm talking about the D-J Transports advancing to successive new highs but with the Dow refusing to confirm. I haven't read a word about the non-confirmation in any publication -- but you're reading about it here. And I think it's significant.

The US money supply is now expanding rapidly: normally this would be inflationary. But the market evidently thinks differently. The evidence: (1) bonds continue to surge and as this is written bonds are within half a point of their July 31 high; (2) gold is simply marking time, although the XAU is creeping higher; and (3) the dollar, on the decline since early-August, is now pushing higher, and a powerful dollar militates **against** inflation.

Stock market volatility, which has been at an extreme for months, is, I think, beginning to ebb. Remember, after the storm comes the calm -- and believe me, for option sellers this super-high stock market volatility hasn't been just a storm, it's been a hurricane. But declining volatility suggests that we could be moving into a period of calmer action.

Increasingly, the stock market is zeroed in on bond rates. If the long-bonds are up five ticks, the stock market rallies. If the long-bonds are down five ticks, the stock market declines. The moving averages for the bonds are in the bullish mode, and the bonds are now well above their 34-week MA -- technically, the bond picture remains **bullish.**

The Russell Prediction for the stock market: high level trading range.

NEXT MAILING: Oct. 8, 1997